THE BOND MARKET

The bond list has presented striking irregularities during the past fortnight, with domestic corporate issues buoyant, Governments soft and the foreign group mixed, but generally higher. Legislative progress of the $2,000,000,000 Reconstruction Finance Corporation bill, with its potential benefits to principal branches of industry and finance, did much to cheer sentiment. Although gains were general among domestic issues, leadership was assumed by the rails, with prospects that they will be aided by solution of the wage reduction problem. The market also attaches considerable weight to bus and truck regulation proposals and to the possibility that carriers may ultimately be permitted to acquire such existing lines. Increasing activity on the upside is one of the most encouraging aspects of the bond market at this time.

Common Stocks

Consolidated Gas Prepared For Upturn

Depressed general business conditions have undoubtedly affected the Consolidated Gas Co. of New York in some degree, but relative to electric and gas companies collectively, the showing of the enterprise during the past year probably has been noteworthy. No interim statements of earnings are published, making an accurate gauge of 1931 earnings difficult, but judging by information from semi-official sources, approximately $5 a share will be reported for that year. Thus, the $4 annual dividend will be covered by a comfortable margin and at this time there seems to be no question as to continuance of this rate of disbursement.

Diversified Service

Both in the nature of its markets and in the fact that it provides both electric and manufactured gas service, (the former accounting for, roundly, three-fourths of the total revenues) Consolidated Gas is unusually well situated. With the exception of Staten Island, electricity is provided in all the boroughs of New York City, and in this area a widely diversified type of market, ranging from large manufacturing plants to small householders, is to be found. An extensive and growing suburban area, Westchester County, is also served with electricity and gas, further diversifying activities. With the exception of the Borough of Brooklyn, manufactured gas service covers the major portion of the New York City and Westchester County territories. Thus, the company is able to concentrate its productive facilities in large and economical units.

Steady Earnings Growth

During the past decade, revenues and profits have pursued a virtually uninterrupted trend toward higher levels, 1930 net income, the latest available, having reached a new peak at $68,463,786, or $5.06 a common share. In 1929, net totaled $65,465,462, or $4.81 per share on the outstanding stock, results having been adjusted to insure comparability. As a result of rate reductions and curtailment in industrial power demands, a small decline in 1931 profits is quite likely and, as stated above, results are estimated around $5 per share.

Improved Rate Structure

Until the summer of 1931, the principal electric divisions of the Consolidated Gas Co. had been operating on an unscientific and antiquated rate structure. The principal deficiencies lay in the facts that consumers were given no inducement to use greater amounts of electricity through a steady lowering of the cost per unit and, secondly, the absence of a minimum charge caused a loss to the company on a great number of consumers using extremely small quantities of electricity each month. This situation has been completely changed and the company now operates with an inducement rate and a minimum monthly bill. All users but the smallest stand to benefit from this revision, however, and the immediate effect is likely to be reduced revenues which, in time, probably will be made up through larger sales per customer. Although certain political objections to the new rates have been raised, the company is supported by the Public Service Commission and further important revisions are unlikely for the present.

Conservative Capitalization

Unlike many well situated public utility companies, Consolidated Gas has always pursued highly conservative financial policies, has not mortgaged its properties heavily and, in fact, has maintained a large portion of its capitalization in common stock and surplus. At the close of 1930, funded and unfunded debt totaled $332,062,093, preferred stocks and minority interests amounted to $205,375,288 while common stock and surplus, represented by 11,467,539 shares, aggregated $613,023,461. This structure is substantially the same at present, in all probability, but, under more favorable general market auspices, it is likely that a portion of the unfunded debt will be permanently financed through the issuance of additional preferred stock. The common shares fluctuated in 1930 between 136⅛ and 78¼; since the commencement of 1931, the range has been from 109⅝ to 57¼. At current prices, approximately 62, a yield of 6.4% is afforded.

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Reynolds (R. J.) Tobacco—A Conservative Equity

In addition to ranking as the second largest factor in the domestic tobacco trade, Reynolds holds certain special advantages which impart to its common shares inherently conservative features. One of these is the stability provided by its leadership in the smoking tobacco division. Another is the fact that only one cigarette brand —the "Camel"—is produced. Finally, the company is capitalized along unusually conservative lines.

Smoking Tobacco Division Important

Through the medium of its "Prince Albert" smoking tobacco, Reynolds has secured undoubted leadership in the manufactured tobacco field. Recently, this position of eminence has come to assume added significance. Beginning in August, 1931, withdrawals of smoking tobacco for consumption reversed the downward tendencies previously in evidence. An increase of 2% was shown for that month over the total reported for the like 1930 month, followed by gains of 2% in September, 4% in October and 11% in November. These advances occurred simultaneously with rather large declines in cigarette withdrawals and reflected the endeavors of consumers to economize, either by "rolling their own" cigarettes or by turning to the alternative form of pipe smoking. In both cases, smoking tobacco sales benefited.

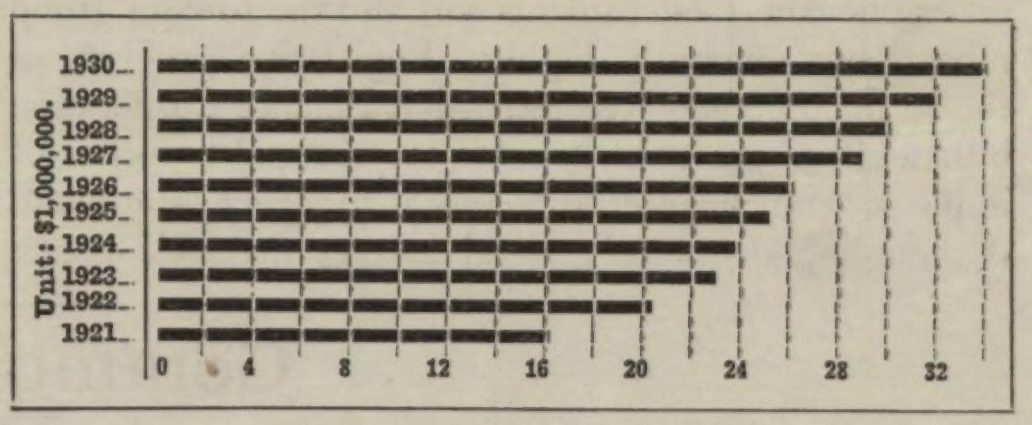
It is estimated that "Prince Albert" sales alone normally contribute approximately 35% to 40% of Reynolds' net income. Assuming, therefore, that this brand has shared in the recent increase in manufactured tobacco consumption, an important offsetting factor to declining cigarette consumption has been provided. In addition, the company makes such secondary brands as "George Washington," "Stud" and "Our Advertiser" smoking tobaccos.

Produces Only One Cigarette Brand

This company's cigarette manufacturing activities are centered entirely on the "Camel" brand. Thus, sales efforts can be concentrated exclusively on this single cigarette. During the past year, it is believed, sales of minor cigarette brands have declined sharply, accounting in considerable measure for the contraction shown in aggregate volumes. Obviously, making only "Camel," Reynolds has avoided any consequences resulting from the rapidly receding popularity of the secondary brands.

The "Camel" cigarette, with an estimated output of 35,000,000,000 in 1930, held second rank in the trade. This competitive position remained undisturbed during 1931. While some recession in outturn probably was witnessed last year, that setback is believed to have been of relatively moderate proportions. Largely because of higher cigarette prices, 1931 earnings increased to $3.64 per share from $3.43 per share for 1930.

Reynolds Tobacco Co.
Net Income.



Alert Management

Indicative of the traditionally alert management which this company has had, may be mentioned several outstanding events. To begin with, Reynolds was the first to bring out a popular-priced blended brand in this country. This initial introduction of "Camel" took place in 1913 and preceded the appearance of "Lucky Strike" by four years and "Chesterfield" by five years. For a considerable period "Camel" led the field, and it was not until 1930 that first rank was lost to "Lucky Strike." In that same year advertising policies were liberalized, in recognition of new competitive conditions. Last year, Reynolds pioneered in basing an intensive sales campaign on the cellophane wrapping feature. A further example of progressive management is given by the concentration of all plant facilities at Winston-Salem, N. C.

Capitalization and Dividends

Reynolds is unique among the leading tobacco manufacturers in having no other securities (either funded debt or preferred stock) ahead of the common stock. During a period of general business depression, this operates to safeguard the interests of the equity holders. Capitalization is represented solely by 1,000,000 shares of common stock (voting) and 9,000,000 shares of Class B stock (non-voting), both issues having a par value of $10. The current dividend rate on the two classes of stock is $3 per annum.

While the market for the common stock is relatively restricted, the "B" share are actively traded on the New York Stock Exchange, the 1931 range having been 54½ to 32½. At current prices, around 36, the stock yields about 8½%.

While the information contained in this letter is not guaranteed, it is carefully compiled and believed to be correct.